Union Carbide Canada Limited
1980 Annual Report

UNION CARBIDE

Directors

Douglas F.S. Coate
Secretary and General Counsel
Union Carbide Canada Limited
Toronto

†*Jacques de Billy
Senior Partner, Messrs. Gagnon, de Billy, Cantin, Martin, Beaudoin & Lesage
Quebec City

*John S. Dewar
President
Union Carbide Canada Limited
Toronto

†*Alec Flamm
Senior Vice-President
Union Carbide Corporation
New York

Alexander I. Hainey
Vice-President
Union Carbide Canada Limited
Toronto

†*Richard J. Hughes
Senior Vice-President
Union Carbide Corporation
New York

W. Norman Kissick
Vice-President
Union Carbide Canada Limited
Toronto

†*Ian D. Sinclair
Chairman and Chief Executive Officer
Canadian Pacific Limited
Montreal

†*Elio E. Tarika
Senior Vice-President
Union Carbide Corporation
New York

†*James C. Thackray
President
Bell Canada
Montreal

†*Richard M. Thomson
Chairman and Chief Executive Officer
The Toronto-Dominion Bank
Toronto

*Audit Committee
†Compensation Committee

Executive Officers

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President

Ralph C. Addison
Vice-President

Vernon V. Garlick
Vice-President and Treasurer

Alexander I. Hainey
Vice-President

W. Norman Kissick
Vice-President

Robert H. Rastorp
Vice-President

Douglas F.S. Coate
Secretary and General Counsel

George A. Kelly
Controller

About Union Carbide Canada

Union Carbide Canada Limited is a uniquely diversified manufacturing company with component businesses in plastics, chemicals, gases, metals, carbon and consumer products. It is 25 per cent Canadian owned, its common shares being held by approximately 3,800 shareholders. The remaining 75 per cent equity is owned by Union Carbide Corporation, of New York. More than 5,000 people are employed in Union Carbide plants and sales offices across Canada.

The Annual Meeting of Shareholders will be held at 11.00 a.m. on Wednesday, April 29, 1981, at the Chateau Lacombe, Edmonton.

Sur demande, il nous fera plaisir de vous envoyer l'édition française de ce rapport.

Operating and Functional Management

Robert J. Brema
General Manager, Home and Automotive Products

Richard C. Kugelman
General Manager, Battery Products

Robert J. Kulperger
General Manager, Gas Products

André G. Lapalme
General Manager, Hydrocarbons

E.J. Peter Matzen
General Manager, Chemicals

F. Gordon Murphy
General Manager, Carbon Products

Thomas R. Pezzack
General Manager, Casings and Films

William D.E. Phillips
General Manager, Polyethylene

George W.T. Richardson
General Manager, Metals

David R. Barclay
Director, Distribution

James P. Gracie, M.D.
Director, Health and Environmental Affairs

George T. Harrap
Director, Safety and Loss Prevention

James M. Neelands
Director, Computing and Telecommunications

Stewart N. Playford
Director, Purchasing and Materials Services

Robert A. Seath
Director, Corporate Communications

John A. Steinmiller
Director, Executive Staff

Charles W. van Winsen
Director, Human Resources

President's Letter

Union Carbide Canada Limited experienced another year of record earnings in 1980 which will enable the Company to build further on Canada's current competitive advantage in hydrocarbon costs by reinvesting in new capital projects.

Total sales improved 16 per cent to a new high of $794.8 million. All business areas — Plastics and Chemicals; Gases, Metals and Carbon; and Consumer and Related — registered gains. Export sales were $104 million, an increase of 36 per cent.

Strong sales impacted positively on net income. The abrupt earnings recovery of 1979 was more than sustained as net income reached $79.6 million, or $7.43 per common share, compared with $57.8 million, or $5.35 per common share, a year earlier.

Accounting changes introduced in 1980 and detailed in the notes appended to the financial section of this report contributed $1.13 per share to the improvement. These changes affected depreciation, investment tax credits, goodwill amortization and interest capitalization.

The chemical industry currently is Canada's fastest growing major industrial sector. The industry's planned 1981 capital expenditures amount to a 72 per cent increase over 1980. Totalling more than $1 billion, they represent approximately 13 per cent of all reported new investment by Canadian manufacturers.

For its part, Union Carbide expects to invest more than $750 million over the next five years. Immediate capital projects include a world-scale ethylene glycol plant at Prentiss, Alberta, and the phased expansion of polyethylene production in Moore Township, Ontario.

This commitment to increased capital investment is based on the expectation that the industry will continue to be able to offset the higher investment and distribution costs inherent in the Canadian environment with favourable domestic pricing of hydrocarbon supplies.

In this regard, the federal government's National Energy Program is a laudable move to provide a basis for long-term planning. Both the federal and Alberta governments have proposed constructive measures that recognize the importance of petrochemicals to the economy and their great potential in international markets. A Canadian crude oil price maintained at 75 to 85 per cent of the average U.S. or world price would maintain the competitive position of the industry, enabling it to continue to efficiently produce the chemical building blocks upon which so much of our economy depends.

For the coming year, we anticipate stronger pressure on earnings as hydrocarbon feedstock costs rise and the projected slow rate of economic growth inhibits further substantial sales gains.

On behalf of the Directors, I would like to extend a special thanks to Union Carbide's employees whose efforts, productivity and ingenuity contributed greatly to 1980's achievements.

Financial Highlights

While Union Carbide earned substantially more in 1980, fixed asset additions almost doubled to reach $58.9 million. The Company's cash position declined at year-end to $26.8 million from $40.2 million in 1979.

Receivables rose by $31.2 million to $149.1 million as a result of higher sales. Inventories also increased, by $64.5 million to $193.6 million, reflecting weak mid-year market conditions for some of the Company's products and the building of battery inventories in preparation for a consolidation of manufacturing. Inventories are expected to return to more normal levels in 1981.

The current ratio (total current assets: total current liabilities) was a healthy 2.5:1 at year-end which, although down from the 2.9:1 at the end of 1979, still held much of the strength it gained the previous year.

The Company's investment in Petrosar Limited, in which it has a 20 per cent equity interest, was increased by $1.2 million to support that company's commitment to its bankers, bringing Union Carbide's total Petrosar investment to $48.4 million. The comparable 1979 increase was $2.2 million. Petrosar, which supplies ethylene to the Moore Township polyethylene plant, operated profitably during 1980 and no further investments are anticipated.

The most significant new investment was Pétromont and Company, Limited, a limited partnership formed in association with Gulf Canada Limited and Ethylec Inc., a wholly-owned subsidiary of la Société générale de financement du Québec. Ethylene requirements for Union Carbide's Montreal East petro-chemical plant are purchased from Pétromont.

During 1980, the Company revised the estimated useful lives of machinery and equipment to correspond more closely with their actual service lives. Depreciation as a result was reduced by a pre-tax $4.3 million to $28.6 million. This and the other accounting changes in 1980 increased earnings by $11.3 million, or $1.13 per common share. After adjusting for these changes, return on sales for the year was 7.9 per cent, return on invested capital 11.7 per cent and return on common shareholders' equity 19.2 per cent. During the five-year period 1976-80, return on invested capital averaged 8.4 per cent.

Common dividends amounted to $10.8 million, or $1.07 per share. While this represents 17 per cent of adjusted earnings, the dividend payout over the last five years has averaged 29 per cent of net income and quarterly dividends have been paid without interruption since Union Carbide's shares were offered to the public in 1964. The book value per common share at year-end improved to $36.01 from $29.65 a year ago.

The Year at a Glance

	Thousands		Per Common Share	
	1980	1979	**1980**	1979
Sales	**$794,824**	$685,919		
Net Income	**79,612**	57,814		
Earnings for Common Shareholders	**74,503**	53,582	**$ 7.43**	$ 5.35
Dividends on Common Shares	**10,750**	9,251	**1.07**	0.92
Funds from Operations	**116,395**	122,436	**11.10**	11.81
Fixed Asset Additions	**58,913**	30,074		
Total Assets	**864,050**	745,286		
Common Shareholders' Equity	**361,124**	296,893	**36.01**	29.65
Return on Sales	**9.4%**	7.8%		
Return on Invested Capital*	**13.8%**	10.9%		
Return on Common Shareholders' Equity*	**22.6%**	19.5%		

*Based on average of beginning and end of year figures. Invested Capital includes Short-Term Debt, Long-Term Debt and Shareholders' Equity.

Shoppers' bags, made from strong, attractive, polyethylene, represent one of the fastest-growing applications for this versatile plastic. Union Carbide is Canada's leading polyethylene producer.

Plastics and Chemicals

Plastics and Chemicals recorded a sales increase of 11 per cent, following a 48 per cent improvement the previous year.

Sales of polyethylene, the most widely used plastic and Union Carbide's leading single product, improved modestly despite the economic recession which tempered 1979's strong demand. By mid-year, both domestic and export demand had dropped sharply, depressing prices. Markets recovered late in the year, however, and export sales gained significantly, reflecting Canada's lower-than-world hydrocarbon feedstock costs and the Canadian foreign exchange advantage.

Union Carbide continued to upgrade and broaden the flexibility of its polyethylene facilities. Developmental quantities of UNIPOL linear low-density resins were produced for the first time and engineering modifications to the Moore Township plant are under way to allow commercial production of these revolutionary new resins to complement Union Carbide's current broad range of low- and high-density polyethylene. The new product line is expected to facilitate entry into several new market areas.

Further gains in polyethylene sales in the coming year will hinge on the state of the Canadian economy and the stability of world markets. Escalated feedstock costs will narrow profit margins.

Chemicals recorded stronger revenue gains as 1979's positive pricing trends were maintained. Union Carbide manufactures more than 20 different families of ethylene-derived chemicals at its Montreal East petrochemical complex for a diverse range of industrial uses.

Polyester provides the insulation for these ski jackets and is used in the manufacture of a wide range of apparel. A key component of polyester is ethylene glycol, Union Carbide's largest volume chemical.

Graphite electrodes are manufactured by Union Carbide to withstand enormous electrical, thermal and mechanical stresses as they conduct electric power into giant electric arc steel making furnaces.

Gases, Metals and Carbon

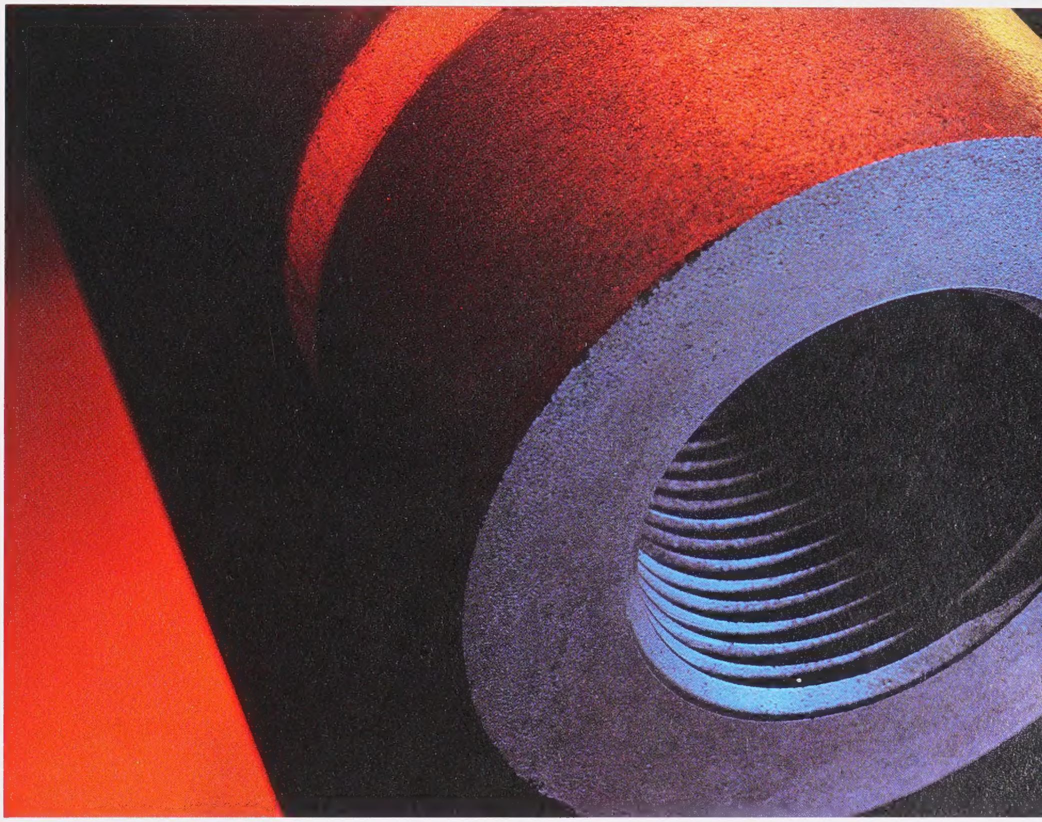
Ethylene glycol is the Company's largest volume chemical and, while its demand for anti-freeze production declined, this drop was offset by increased shipments of the product as a key component in the production of polyester fibre.

A new high-efficiency catalyst was installed at the Montreal East ethylene oxide production facilities early in the year, providing a significant increase in unit capacity.

In Alberta, provincial and county government approvals are being sought for a world-scale plant to upgrade ethylene produced from natural gas into ethylene glycol. With an annual capacity of more than 500 million pounds, the proposed plant will use a new-generation, improved catalyst and be the world's most efficient facility of its kind. Most of the output will be directed to export markets. Plans call for the $300 million plant to be under construction in 1981 and in production by late 1984.

In Quebec, Pétromont and Company, Limited was formed. Union Carbide is a limited partner with one third of the equity of this Montreal-based venture which has the capability of producing an annual 1.5 million pounds of such basic petrochemicals as ethylene, propylene and aromatics. Pétromont's assets include Union Carbide's former Montreal East ethylene unit and a larger olefins plant previously operated by Gulf Canada at nearby Varennes. The partnership will study the practicality of expanding its petrochemical output to meet the growing needs of derivative producers in Quebec and Ontario.

A modest increase in chemicals volume is anticipated in 1981 with income gains being dependent on economic conditions and hydrocarbon cost increases.



Gases, Metals and Carbon posted the largest sales increase of Union Carbide's businesses in 1980, improving 24 per cent over the previous year.

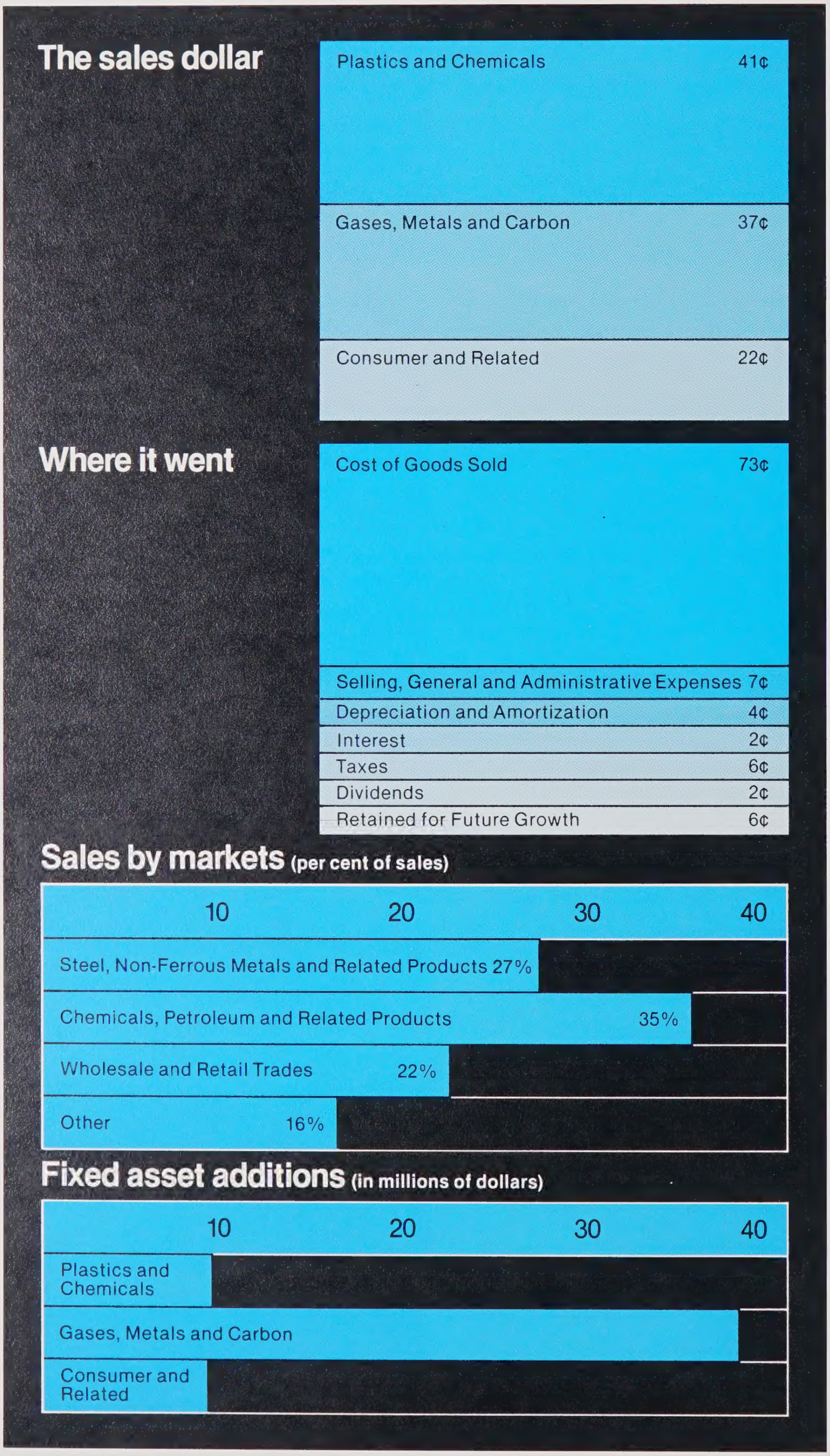
Gases' sales growth was aided by the first full year's output of a new air separation plant at Fort Saskatchewan, Alberta. This facility, the largest of its type in Western Canada, supplies oxygen and nitrogen in both liquid and gaseous forms for industrial and medical applications and oil well servicing throughout the West. Although it became operational only in late 1979, work has already started on a $12 million expansion.

Union Carbide operates 11 other air separation plants across the country, as well as manufacturing and marketing welding and cutting equipment and high-technology stream separation systems.

The product line was broadened in 1980 with the completion of the Company's first carbon dioxide facility, a $4 million plant at Montreal East. Carbon dioxide is principally used in the welding, beverage and food freezing industries and in oil and gas enhanced recovery programs.

An additional air separation plant is in the planning stage to supply gaseous oxygen to Union Carbide's proposed Alberta ethylene glycol facility. Subject to required government approvals, the $30 million plant will be completed in 1984. It will also produce liquid oxygen and nitrogen to meet the growing needs of the Western Canadian market in the latter half of the decade.

Carbonated soft drinks get their refreshing "fizz" from carbon dioxide, a 1980 addition to Union Carbide's atmospheric gases product line. Carbon dioxide is also used in food processing, welding and oil and gas enhanced recovery programs.



Research and development activities during the year focussed on opportunities for greater utilization of atmospheric gases in the energy industries and on the broadening of current gas applications in food processing. Moderate sales improvement is expected in 1981 in line with the economic recovery.

Agreement in principle was reached during the year to sell Union Carbide's metals business to a group headed by Shielding Investments Ltd. and a Norwegian company, Elkem a/s. Negotiations are continuing and the result of the sale is not expected to significantly affect the Company's financial performance.

Union Carbide's principal carbon product is graphite electrodes which are used to power electric arc furnaces in the steel industry. Although total ingot steel production in Canada declined slightly in 1980, the electric furnace component improved. Electrode sales trended higher as a result, contributing to the strong performance of this area of the Company's operations.

Graphite electrode capacity at the Welland, Ontario, plant was upgraded and enlarged by 30 per cent in a $17 million program. New processes introduced to the facility enhanced environmental protection and achieved new energy efficiencies, in addition to expanding output.

Distinctive yellow containers of blow-molded polyethylene hold Union Carbide's PRESTONE II anti-freeze and summer coolant, the brand leader in its field.

Consumer and Related

Union Carbide's Consumer and Related business includes ENERGIZER and EVEREADY batteries, GLAD home products, PRESTONE II anti-freeze, plastic film products and food casings, which are used in processed meat production. The business achieved a 12 per cent sales increase.

Batteries recorded healthy growth with the introduction of the high-performance ENERGIZER line, which made a successful debut in a highly-competitive retail market. Further gains are anticipated in 1981. Work started during the year on a $10 million expansion of the Walkerton, Ontario, plant to consolidate battery manufacturing. When the expansion is completed in mid-1981, an older Toronto production facility will be phased out of operation.

GLAD home products enjoyed another highly successful year, steadily increasing market share in the food wrap, sandwich bag and freezer bag market segments. Garbage bag sales volume matched industry growth trends.

New products introduced in 1980 included a re-formulated plastic wrap with improved toughness and clarity which received encouraging consumer acceptance. Completion of a $2.5 million expansion at the Orangeville, Ontario, home products plant enlarged capacity by 35 per cent.

Sales of anti-freeze declined with industry growth being inhibited by a lower level of automobile production and competition from imported product. Construction of a facility to mix the sophisticated anti-freeze formulas required by the coming generation of fuel-efficient cars started at Montreal East. Completion is scheduled for the spring of 1981.

Film products experienced an appreciable sales increase in the face of an overall market decline. Developmental work continued on new high-performance films for packaging applications. Sales in 1981 are expected to outpace industry growth projections.

Food casings achieved moderate sales improvement. Future volume gains are forecast to parallel population growth.

Resources and Responsibilities

In a variety of ways, Union Carbide continued to meet its responsibilities in three major areas: human resources; safety, health and environmental protection; and energy utilization and conservation.

The men and women who work for the Company represent a valuable fund of skills and talents and developing these abilities still further is always an important priority. In this regard, the Company continuously monitors six essentials — personnel planning; selection and placement; training and development; performance evaluation; compensation; and communications. New elements were introduced in all of these in 1980.

The additions included a review program that allows employees to fully express their career aspirations, a process that more accurately matches potential candidates to specific job openings; regular performance coaching on an individual basis and the broadened utilization of a compensation approach that keys salary increases to employees' contributions.

The development of organizational techniques and motivational methods to improve productivity and job satisfaction continued during the year. Pre-retirement counselling was provided at selected locations and will be extended during 1981.

The dental assistance plan was upgraded, paid holidays were increased from 11 to 12 days and employees who retired before July 1 received pension increases of from three to 12 per cent, depending on their retirement date.

Union Carbide maintained its emphasis on the highest standards of health and safety for its employees and for the protection of the environment.

The Company experienced its most satisfactory safety year ever, achieving significant reductions in the number of accidents that occurred both on and off the job. To ensure that the best available technology is used to provide healthy and safe conditions in and around all new facilities and major process modifications, a pre-construction review system was expanded and improved. Health and environmental expertise was actively shared with other industries.

Union Carbide continued its leadership role in energy conservation, exchanging information with other companies and offering counsel to government on energy policy formation. In its submission to the National Energy Board, for example, the Company urged that growth in the supply of indigenous energy resources be balanced with growth in the industries that upgrade these resources for optimal domestic value addition and employment.

Management Report

Union Carbide Canada Limited's Annual Report and the accompanying financial statements are prepared by the Company's management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied, except for the changes described in Note 5 to the financial statements, on a basis consistent with that of the preceding year. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the Annual Report, including the financial statements. All information in the Annual Report is consistent with the financial statements included therein.

Auditors' Report

To the Shareholders of
Union Carbide Canada Limited

We have examined the consolidated balance sheet of Union Carbide Canada Limited as at December 31, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the changes in the method of accounting for investment tax credits and interest on long-term debt attributable to capital projects as explained in note 5(a) and (b) to the financial statements, on a basis consistent with that of the preceding year.

Main Hurdman & Cranstoun
Chartered Accountants

Toronto, Canada
January 23, 1981

The notes on pages 14 to 19
are an integral part of this statement.

Consolidated Statement of Income and Retained Earnings

	(thousands of dollars) Year Ended December 31 1980	1979
Sales	**$794,824**	$685,919
Cost of Goods Sold	**577,581**	500,238
Selling, General and Administrative Expenses	**58,908**	46,790
Depreciation and Amortization	**29,168**	32,032
Interest on Long-Term Debt	**15,087**	15,712
	680,744	594,772
	114,080	91,147
Investment and Other Income	**6,075**	3,934
Share of Income of Pétromont and Company, Limited	**2,045**	—
	8,120	3,934
Income Before Income Taxes	**122,200**	95,081
Income Taxes	**44,695**	38,806
	77,505	56,275
Share of Income of Companies carried at Equity	**2,107**	1,539
Net Income	**79,612**	57,814
Retained Earnings at Beginning of Year	**237,001**	192,670
	316,613	250,484
Dividends — Preferred	**5,109**	4,232
— Common	**10,750**	9,251
	15,859	13,483
Retained Earnings at End of Year	**$300,754**	$237,001
Earnings per Common Share (in dollars)	**$7.43**	$5.35

The notes on pages 14 to 19 are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

	(thousands of dollars) Year Ended December 31 1980	1979
Working Capital derived from		
Operations		
Net Income	**$ 79,612**	$ 57,814
Items not Affecting Working Capital		
Depreciation and Amortization	**29,168**	32,032
Deferred Income Taxes	**10,894**	32,863
Equity Income (net of dividends)	**(2,352)**	82
Gain on Disposal of Capital Assets	**(927)**	(355)
	116,395	122,436
Proceeds from Common Shares	**478**	292
Proceeds on Disposal of Capital Assets	**5,393**	870
Other — Net	**2,251**	(1,820)
	124,517	121,778
Working Capital applied to		
Fixed Assets	**58,913**	30,074
Dividends	**15,859**	13,483
Investments	**8,874**	2,256
Long-Term Debt	**5,250**	2,250
	88,896	48,063
Increase in Working Capital	**35,621**	73,715
Working Capital at Beginning of Year	**192,495**	118,780
Working Capital at End of Year	**$228,116**	$192,495

Changes in Components of Working Capital		
Cash and Marketable Securities	**$ (13,416)**	$ 25,444
Receivables	**31,185**	28,910
Inventories	**64,477**	16,769
Prepaid Expenses	**2,264**	(26)
Payables	**(48,489)**	(5,063)
Notes Payable to Affiliates	**—**	7,831
Current Portion of Long-Term Debt	**(400)**	(150)
	$ 35,621	$ 73,715

The notes on pages 14 to 19 are an integral part of this statement.

Consolidated Balance Sheet

	(thousands of dollars) December 31 1980	1979
Assets		
Current Assets		
Cash and Marketable Securities	$ 26,798	$ 40,214
Receivables	149,121	117,936
Inventories	193,636	129,159
Prepaid Expenses	7,445	5,181
Total Current Assets	377,000	292,490
Fixed Assets	415,884	390,234
Investments	68,379	57,285
Other Assets	2,787	5,277
	$864,050	$745,286
Liabilities		
Current Liabilities		
Payables	$147,734	$ 99,245
Current Portion of Long-Term Debt	1,150	750
Total Current Liabilities	148,884	99,995
Long-Term Debt	148,000	153,250
Deferred Income Taxes	146,042	135,148
	442,926	388,393
Shareholders' Equity		
Capital Stock	120,370	119,892
Retained Earnings	300,754	237,001
	421,124	356,893
	$864,050	$745,286

Approved by the Directors
Signed: J.S. Dewar
J. de Billy

The notes on pages 14 to 19 are an integral part of this statement.

Notes to the Consolidated Financial Statements (tabular amounts in thousands)

1. Supplementary Balance Sheet Detail

		December 31 1980	1979
Cash and Marketable Securities	Cash and Deposits	$ 1,982	$ 32,761
	Short-Term Securities	24,816	7,453
		26,798	40,214
Receivables	Trade	108,123	91,651
	Affiliated Companies — Trade	33,004	18,402
	Miscellaneous	7,994	7,883
		149,121	117,936
Inventories	Raw Materials and Supplies	37,082	28,590
	Work in Process	48,693	38,714
	Finished Goods	107,861	61,855
		193,636	129,159
Fixed Assets	Land	8,446	7,967
	Buildings	99,782	90,733
	Machinery and Equipment	532,908	514,557
	Gross Fixed Assets	641,136	613,257
	Accumulated Depreciation	225,252	223,023
	Net Fixed Assets	415,884	390,234
Investments	Petrosar Limited	48,367	47,149
	Companies carried at Equity in Net Assets	9,243	6,180
	Pétromont and Company, Limited	6,980	—
	Other Investments	3,789	3,956
		68,379	57,285
Other Assets	Unamortized Commissions and Debt Discount	1,815	2,193
	Deferred Charges	295	2,324
	Unamortized Goodwill	677	760
		2,787	5,277
Payables	Trade Payables & Accrued Liabilities	85,970	68,646
	Affiliated Companies — Trade	27,563	23,198
	Income and Other Taxes Payable	34,201	7,401
		147,734	99,245

Long-Term Debt		1980	1979
	a) 8⅜% Unsecured Debentures maturing May 1, 1992. Mandatory sinking fund payments of $750,000 annually to May 1, 1991.	**22,000**	22,750
	b) 10¾% Unsecured Debentures maturing June 15, 1995. Mandatory sinking fund payments of $3,000,000 annually commencing June 15, 1981.	**72,000**	75,000
	c) 9¼% Unsecured Notes maturing May 1, 1982.	**30,000**	30,000
	d) 9¾% Unsecured Debentures maturing May 1, 1986. Mandatory sinking fund payments of $1,500,000 annually to May 1, 1985.	**24,000**	25,500
		148,000	153,250

Maturities and sinking fund requirements for the years 1981 through 1985 are $1,150,000, $35,250,000, $5,250,000, $5,250,000, and $5,250,000 respectively.

Capital Stock

Authorized
Preferred — 6,000,000 shares issuable in series
Common — Unlimited

	1980		1979	
Issued	**Shares**	**Amount**	Shares	Amount
Preferred Series A	**2,400,000**	**$ 60,000**	2,4000,000	$ 60,000
Common	**10,029,201**	**60,370**	10,013,115	59,892
		$120,370		$119,892

The Preferred Shares Series A are redeemable at the option of the Company and are retractable at the option of the holder on June 1, 1987, in each case at a price of $25 per share plus any unpaid dividends. They have a cumulative preferential floating rate dividend which is adjusted and payable quarterly at a rate which is applied to $25 and is equal to the sum of 1¼% plus ½ of commercial bank prime interest rate.

In 1980, under the long-term stock purchase plan, 16,086 common shares were issued for $478,000 (1979 - 13,115 shares for $291,898) to the trustee holding shares for participating senior management employees and the Company made interest-free loans to such employees of the full purchase price of the shares.

2. Summary of Accounting Policies

Principles of Consolidation

The financial statements of all significant subsidiaries are consolidated with those of the Company. Investments, including Pétromont and Company, Limited, carried at equity in Net Assets include entities owned 25 to 50 per cent as well as subsidiaries which are not significant. The Company's share of earnings of such investments is included in the income statement. Goodwill is amortized over ten years. Other investments (including Petrosar Limited referred to in Note 3) are carried at cost. The following is a financial summary of those entities carried at equity:

	1980	1979
Total Assets	**$213,544**	$ 42,050
Less: Total Liabilities	**121,398**	28,106
Net Assets	**92,146**	13,944
UCCL Equity in Net Assets	**16,223**	6,180
UCCL Equity in Net Income	**4,152**	1,539

Short-Term Securities

Short-term securities are carried at cost, which approximates market.

Inventories

Inventory values, which do not include depreciation of fixed assets, are stated at the lower of cost and net realizable value. Cost is determined on the average cost method.

Fixed Assets and Depreciation

Fixed assets are carried at cost. Expenditures for replacements are capitalized and the replaced items are retired. Maintenance and repairs are charged to operations. Fixed assets are depreciated on the straight line method over their estimated useful service lives. This results in an overall depreciation rate of 6% (1979 - 7%). Depreciation is not charged on new assets until they become operative. Beginning January 1, 1980, interest on long-term debt attributable to major capital projects is capitalized.

Research and Development

Research and development costs are charged to operations as incurred.

Income Taxes

The Company uses the deferral method of tax allocation to provide for income taxes. The time in which transactions affect taxable income frequently differs from the time in which they enter into the determination of income in the financial statements. The cumulative differences between taxes provided and taxes payable are shown under Deferred Income Taxes on the Consolidated Balance Sheet. Investment tax credits are included in income in the year they are claimed for tax purposes as a reduction in the current income tax provision.

Employee Retirement Program

The unfunded actuarial liability for past service costs under the retirement program, estimated to be $21,795,000 as at January 1, 1980, will be amortized over not more than fifteen years in accordance with current pension legislation.

Translation of Foreign Currencies

Foreign currencies are translated into Canadian dollars as follows:

a) Cash, receivables and payables at year-end exchange rates.
b) All other assets and liabilities as well as income and expenses at rates prevailing at the month-end prior to the transaction.

Realized and unrealized exchange gains and losses are credited or charged to operations and are not material in amount.

3. Commitments

a) The Company has a 20% equity interest in Petrosar Limited with which the Company has entered into long term take or pay contracts for the purchase of ethylene and atmospheric residual oil. The atmospheric residual oil contract was entered into by the Company as accommodation purchaser for Union Carbide Corporation which has undertaken to protect the Company for all losses which may be incurred thereunder.
Petrosar Limited has issued Class "A" preference shares which carry the right to a cumulative preferential floating rate dividend and are retractable over a period expiring December 31, 1987. The Company is committed to advance 30.4% of any funds necessary to make up any deficiency in meeting the financial obligations of Petrosar to pay dividends on and redeem these shares. Union Carbide Corporation has agreed to advance to the Company 33.2% of any funds the Company is required to pay under this commitment. During 1980, pursuant to this commitment, the Company subscribed for $1,824,000 of Class "B" preference shares which, in all respects, rank behind the Class "A" preference shares and Union Carbide Corporation in turn purchased from the Company $605,600 of the Class "B" Shares.

b) In 1980, Union Carbide Corporation signed a letter of intent for the sale of a portion of its Metals Business. The proposed sale would involve plants at Beauharnois and Chicoutimi, Quebec. Negotiations are continuing and the transaction is not expected to significantly affect the financial performance of the Company.

c) Commitments under non-cancellable leases with a term extending for one year or more will require the following future payments:

1981	$ 3,898
1982	2,661
1983	2,207
1984	1,666
1985	1,248
Thereafter	3,588
	$15,268

d) The Company has commenced activities with respect to the construction of a petrochemical plant at Prentiss, Alberta, which will involve expenditures of $300 million over the period to the completion of the plant in 1984.

4. Segmented Information

The Company has three major business segments, as determined by the Board of Directors and recorded in the minutes of a meeting thereof: (1) Plastics and Chemicals, (2) Gases, Metals and Carbon, and (3) Consumer and Related. These segments were determined based upon the similarity or close relationship in each segment of certain factors, including the following: nature of markets, common production and distribution facilities, and type of raw materials used. Inter-segment sales are accounted for at prices comparable to open market prices for similar products and services. The following is a summary of financial information for each segment:

Segmented Information (continued)

	Plastics & Chemicals		Gases, Metals & Carbons		Consumer & Related	
	1980	1979	**1980**	1979	**1980**	1979
Sales to Customers	**$322,800**	$290,967	**$294,839**	$236,911	**$177,185**	$158,041
Inter-Segment Sales	**63,484**	53,980	**3,359**	2,848	**277**	288
Total Revenue	**386,284**	344,947	**298,198**	239,759	**177,462**	158,329
Segment Operating Profit	**85,267**	71,526	**55,141**	31,996	**22,226**	18,432
Identifiable Assets	**402,731**	354,665	**299,025**	235,311	**92,938**	69,209
Fixed Asset Additions	**9,817**	4,581	**38,300**	18,969	**9,016**	6,264
Depreciation and Amortization	**14,466**	15,920	**12,082**	12,416	**2,232**	2,646

5. Accounting Changes

Effective January 1, 1980, the Company made the two changes in accounting principles described in paragraphs a) and b) of this note 5 and two other changes in amortization periods described in paragraphs c) and d) hereof. The total net positive effect of these changes is $11.3 million, or $1.13 per common share.

a) Investment Tax Credits ($8.7 million): Rather than being deferred and recognized in income over the average useful lives of the related fixed assets, the Company has adopted the flow-through method which takes investment tax credits into income in the year they are claimed for tax purposes as a reduction in the current income tax provision.

b) Interest Capitalization ($0.2 million): The Company now capitalizes interest on long-term debt attributable to capital projects. The interest is amortized over the average useful life of the assets.

c) Depreciation ($2.3 million): The Company has revised the estimated useful lives of machinery and equipment to correspond more closely with their actual useful lives. The adoption of new estimates results in more realistic depreciation costs, thus producing a better matching with the revenue producing capabilities of the assets.

d) Goodwill Amortization ($0.1 million): Goodwill purchased subsequent to January 1, 1980 is amortized over 10 years, rather than the 5 years used in prior years. The new amortization period matches more accurately with management's expectation for return on the related long-term investments.

	Corporate		Consolidated	
	1980	1979	**1980**	1979
			$794,824	$685,919
			162,634	121,954
General Corporate Expense			**(25,347)**	(11,161)
Interest Expense			**(15,087)**	(15,712)
Equity Income			**2,107**	1,539
Income Taxes			**(44,695)**	(38,806)
Net Income			**79,612**	57,814
	69,356	86,101	**864,050**	745,286
	1,780	260	**58,913**	30,074
	388	1,050	**29,168**	32,032
Export Sales			**104,008**	76,204

6. Related Party Transactions

a) Affiliated Companies

	Union Carbide Corporation		Companies Accounted for By Equity Method	
	1980	1979	**1980**	1979
Sales to	**$ 81,986**	$ 66,599	**$ 29,801**	$ 20,990
Purchases from	**86,000**	131,113	**23,561**	2,585
Royalties paid to	**11,103**	10,255	**—**	—

Settlements with affiliated companies are normally made on terms similar to those made with non-related parties.

b) Pétromont
Effective October 1, 1980, the Company, Gulf Canada Limited and la Société générale de financement du Québec entered into an agreement to form Pétromont and Company, Limited, a limited partnership for the production and marketing of basic petrochemicals. Under this agreement the Company sold its existing ethylene and propylene producing assets located at Montreal East and obtained a one third interest in the partnership for $34 million. The gain on the assets sold will be included in the Company's share of income from Pétromont over fifteen years.

7. Comparative Figures

The present auditors were appointed at the last annual meeting of the shareholders of the Company. The 1979 comparative figures are based on financial statements reported upon by the former auditors.

Five Year Summary

For the Year (thousands of dollars)	**1980**	1979	1978	1977	1976
Sales					
Plastics and Chemicals	**$322,800**	$290,967	$195,967	$124,771	$114,593
Gases, Metals and Carbon	**294,839**	236,911	209,015	178,071	183,969
Consumer and Related	**177,185**	158,041	123,225	103,694	95,173
	794,824	685,919	528,207	406,536	393,735
Net Income	**79,612**	57,814	20,089	20,500	32,121
Dividends					
Preferred	**5,109**	4,232	3,359	804	—
Common	**10,750**	9,251	9,000	9,000	8,875
Net Income Reinvested	**63,753**	44,331	7,730	10,696	23,246
Funds from Operations	**116,395**	122,436	55,205	45,182	69,460
Fixed Assets Additions	**58,913**	30,074	46,270	82,299	110,207
Depreciation and Amortization	**29,168**	32,032	24,992	18,104	17,012
At Year-End (thousands of dollars)					
Total Assets	**864,050**	745,286	672,668	619,331	546,064
Working Capital	**228,116**	192,495	118,780	130,083	136,289
Common Shareholders' Equity	**361,124**	296,893	252,270	244,540	233,844
Per Common Share (dollars)					
Earnings	**7.43**	5.35	1.67	1.94	3.21
Dividend	**1.07**	0.92	0.90	0.90	0.89
Net Income Reinvested	**6.36**	4.43	0.77	1.07	2.32
Funds from Operations	**11.10**	11.81	5.18	4.44	6.95
Equity	**36.01**	29.65	25.23	24.45	23.38
Market Price (Toronto Stock Exchange)					
High	**44.00**	27.25	19.12	19.25	24.00
Low	**25.50**	17.50	16.62	16.25	17.62
Financial Ratios (per cent)					
Return on Sales	**9.4**	7.8	3.2	4.8	8.2
*Return on Invested Capital	**13.8**	10.9	3.6	4.7	9.1
*Return on Common Shareholders' Equity	**22.6**	19.5	6.7	8.1	14.5
Common Dividends as per cent of Earnings	**14.4**	17.3	53.8	46.3	27.6
Other					
Number of Common Shareholders at Year-End	**3,800**	4,200	4,900	5,200	5,500
Average Number of Employees	**5,004**	4,791	4,704	4,695	4,819
Wages and Salaries (thousands of dollars)	**$115,187**	$ 94,566	$ 85,880	$ 80,621	$ 75,168

*Based on average of beginning and end of year figures. Invested Capital includes Short-Term Debt, Long-Term Debt and Shareholders' Equity.

Plants	Products
Plastics and Chemicals	
Moore Township, Ontario/Montreal East, Quebec	UNION CARBIDE Low- and High-Density Polyethylene Resins/Co-Polymers/Vulcanizable and Semi-Conductive Compounds/Polyethylene Powders/Cellular Polyethylene/Polysulfone Resins
Montreal East, Quebec	UNION CARBIDE Organic Chemicals, including Ethylene Oxide, Alkanolamines, Glycols and Glycol Ethers/Silicone Chemicals and Oils/Urethane Foam Intermediates/UCAR Solution Vinyl Resins/CELLOSIZE/CARBOWAX Polyethylene Glycols/UCON Lubricants/UCAR Latices/Propylene
Gases, Metals and Carbon	
Vancouver and Vernon, British Columbia/Calgary, Edmonton and Fort Saskatchewan, Alberta/Saskatoon, Saskatchewan/Selkirk and Transcona, Manitoba/Brampton, London, Mississauga, Oakville, Ottawa, Sarnia, Sault Ste. Marie and Thunder Bay, Ontario/Arvida, Contrecoeur, Lauzon, Montreal, Montreal East, Noranda, Sept-Iles, Tracy and Varennes, Quebec/Saint John, New Brunswick/Halifax, Nova Scotia.	LINDE Oxygen, Nitrogen, Hydrogen, Argon, Helium, Carbon Dioxide and Rare Gases/Specialty Gas Mixtures/Fumigants and Sterilants/Calcium Carbide and Acetylene/Liquefied Hydrocarbon Fuel Gas/Gas and Electric Welding, Cutting, Forming and Heat-Treating Apparatus/Welding Rods, Wire and Electrodes/Power Sources/Heat Exchangers/Steel-Conditioning Machines/Rock-Piercing and Shaping Equipment/Medical and Home Care Gases/Inhalation and Suction Therapy Equipment/Cryogenic Equipment/Food Freezing Equipment/Molecular Sieves/Hydrogen Upgrading and other Refinery Systems/High-Flux Tubing/Distillation Trays
Beauharnois and Chicoutimi, Quebec	Ferroalloys, Alloying Metals, Pure Metals and Metal Compounds produced from the elements Boron, Calcium, Chromium, Manganese, Silicon, Titanium, Tungsten, Vanadium and Zirconium
Toronto and Welland, Ontario	Electric Arc Furnace Electrodes/Cathode Blocks/Electrolytic Cell Anodes/Furnace Linings/Electric Motor and Generator Brushes/Theatre Projector Carbons/Carbon and Graphite Products for chemical, electrical, mechanical and metallurgical applications
Consumer and Related	
Lindsay, Orangeville, Toronto and Walkerton, Ontario/Cowansville, Quebec	ENERGIZER and EVEREADY Batteries, including Alkaline, Manganese, Carbon Zinc, Silver Oxide, Mercuric Oxide, Nickel Cadmium and Lithium/EVEREADY Flashlights, Lanterns and Bulbs/GLAD Food Wrap, Bags and Garbage Bags/GLAD Cupboard Unit/PRESTONE II Anti-Freeze and Summer Coolant/PRESTONE Car Care Products/Polyethylene Film/VISKING Cellulose Food Casings/VISTEN and PERFLEX S Specialty Films

Union Carbide Canada Limited

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